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UNCLAS SECTION 01 OF 02 MONROVIA 000256

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SUBJECT: ISRAELI COMPANY WINS LIBERIA'S LARGEST IRON ORE CONCESSION

REF: 08 MONROVIA 744

¶1. (U) SUMMARY: Elenilto Minerals & Mining has won the concession to rehabilitate and develop the Western Cluster Iron Ore Deposits. Elenilto, the first Israeli company to invest in post-war Liberia, is expected to invest $2.4 billion to redevelop the mines and install a rail network. While the Western Cluster is considered one of the largest iron ore deposits in the world, Liberia failed to attract the largest global steel companies, in part because of the country's infrastructure limitations, and in part because an early bidding process was canceled because of procedural errors. END SUMMARY.

¶2. (U) President Sirleaf and her cabinet announced on January 28 that the Israeli-based Elenilto Minerals & Mining won the concession to rehabilitate and develop the Western Cluster Iron Ore Deposits. The GOL estimates the concession will generate $2.4 million in infrastructure investment, create 4,000 to 5,000 jobs, and generate revenues from royalty payments, surface rentals, license fees, corporate income taxes and import duties. The Liberian government and the Israeli company will begin final negotiations in March for a Mineral Development Agreement (MDA), which the National Legislature also must ratify.

¶3. (U) The Western Cluster iron ore project consists of three deposits, including two idle mines that span Bomi, Grand Cape Mount and Gbarpolu Counties. The project covers the Mano River iron ore deposit (the former National Iron Ore Company, closed in 1976); the Bomi Hills iron ore deposits (the former Liberia Mining Company, closed in 1985); and the Bea Mountain iron ore deposits, which are virtually untouched. The project contains over 1.1 billion tons of iron ore and is considered to be one of the largest remaining deposits in the world.

¶4. (SBU) Deputy Minister for Lands and Mines E.C.B Jones, who also chaired the technical Bid Evaluation Panel, told Econoff that despite the concession's size, the bid attracted responses from only a handful of midsized international companies. Jones said that the tender failed to entice global steel giants because the Western Cluster deposits contain two old mines with relatively low grade ores. ArcelorMittal CEO Joe Matthews added that although ArcelorMittal initially bid on the Western Cluster, it opted not to participate in the second round of bidding because the timing coincided with both a liquidity crunch and a global slump in iron ore prices.

¶5. (U) Elenilto was declared a provisional winner following a year-long due diligence conducted by international audit firms. Other bidders were Sociedade de Formento (India), Capital Steel Global Company (China), and Global Steel Holding Ltd (India). Jones noted that Capital Steel, which is part of the Shougang Corporation, was represented in the bidding process in Liberia by Neil Bush, brother of former President George W. Bush.

¶6. (SBU) The bidding process began in February 2009 after the GOL, citing procedural errors and a failure to conduct due diligence, cancelled an earlier bid Delta Mining Consolidated of South Africa won in 2008 (reftel). Subsequently, the President called for an amendment to the Public Procurement and Concessions Act, which now requires the GOL to conduct due diligence on all bidders, prior to evaluation and awarding of contracts. Matthews added that while the fraught bidding process was not the primary motivation behind ArcelorMittal's decision not to renew its bid, it certainly was a contributing factor.

¶7. (SBU) While the terms of the Elenilto deal remain undecided, Jones said negotiations will begin with provisional sums that include an upfront payment of $25 million, a commitment of $3 million to a community development fund, and an annual rental tax

equivalent to 21% of the company's profits after an as-yet unspecified return on investment. The 25-year renewable license will also require the Israelis to build 65 to 150 kilometers of railway line from the Freeport of Monrovia, improve port facilities, and invest in basic infrastructure such as schools, hospitals, and roads. Jones noted that none of the expected revenues will be included in the draft 2010-2011 budget.

¶8. (SBU) COMMENT: Given that this project is expected to provide substantial revenue for government and create ample socio-economic opportunities for Liberians, it is commendable that the GOL re-bid the concessions in order to comply with procurement standards and ensure the winning concessionaire could fulfill its financial and operational requirements. Further, after China Union unexpectedly delayed payment of a $47 million signing fee, precipitating deep retrenchment in Liberia's modest cash-based budget, the GOL seems to be adopting a welcome fiscal caution by discounting up-front fees from its draft budget until it receives payment. It is disappointing, however, that larger, more established international companies were scared off because of the timing of the global downturn and a lack of confidence in the process.
THOMAS-GREENFIELD